

Message Text

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ACTION EUR-12

INFO OCT-01 EA-07 ISO-00 AID-05 CIAE-00 COME-00 EB-07

FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03

SP-02 CIEP-01 LAB-04 SIL-01 OMB-01 DODE-00 PM-04 H-02

L-03 NSC-05 PA-01 PRS-01 SS-15 DLOS-04 SAL-01 OFA-01

NEA-10 INT-05 OES-03 /117 W
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R 021825Z FEB 76

FM AMEMBASSY LONDON
TO SECSTATE WASHDC 8653
INFO AMEMBASSY ANKARA
AMEMBASSY ATHENS
AMEMBASSY BERN
AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY CANBERRA
AMEMBASSY COPENHAGEN
AMEMBASSY DUBLIN
AMEMBASSY HELSINKI
AMEMBASSY LISBON
AMEMBASSY LUXEMBOURG
AMEMBASSY MADRID
AMEMBASSY OSLO
AMEMBASSY OTTAWA
AMEMBASSY PARIS
AMEMBASSY REYKJAVIK
AMEMBASSY ROME
AMEMBASSY STOCKHOLM
AMEMBASSY THE HAGUE
AMEMBASSY TOKYO
AMEMBASSY VIENNA
AMEMBASSY WELLINGTON
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AMCONSUL BELFAST

AMCONSUL EDINBURGH
AMCONSUL LIVERPOOL

C O N F I D E N T I A L SECTION 01 OF 02 LONDON 01671

E.O. 11652: GDS
TAGS. PINT, PGOV, OPFOR, EGEN, UK
SUBJECT: JANUARY IN THE UK: UNEMPLOYMENT AND DEVOLUTION
SPELL TROUBLE FOR GOVERNMENT

SUMMARY - UNEMPLOYMENT REACHED A POSTWAR HIGH -- 1.4 MILLION (6.1 PERCENT, UNADJUSTED) OUT OF WORK -- TRIGGERING DISQUIET AMONG UNION LEADERS AND PARLIAMENTARIANS. TO STEM RISING CRITICISM, THE GOVERNMENT PROMISED AMELIORATIVE MEASURES; REFLATION AND IMPORT CONTROLS, HOWEVER, WERE FIRMLY REJECTED. FOUR DAYS DEBATE ON DEVOLUTION EXPOSED INTENSE OPPOSITION TO THE GOVERNMENT'S PROPOSALS WHICH EARLIER IN THE MONTH SPLIT THE LABOR PARTY IN SCOTLAND. THE UNEMPLOYMENT AND DEVOLUTION ISSUES, TOGETHER WITH LABOR'S NARROW MAJORITY IN COMMONS, MAKE THE GOVERNMENT INCREASINGLY DEPENDENT ON THE OPPOSITION'S DEBILITY FOR SURVIVAL. UNABLE OR UNWILLING TO CONFRONT THE GOVERNMENT, CONSERVATIVE LEADER THATCHER SHUFFLED THE SHADOW CABINET, TRAVELLED AND UNLEASHED A HARSH ATTACK ON IMPENDING DEFENSE CUTS AND THE SOVIET MENACE. A BREAKTHROUGH IN THE INTRACTABLE NORTHERN IRELAND PROBLEM SEED FAR AWAY AS THE GOVERNMENT RECONVENED THE NI CONSTITUTIONAL CONVENTION. THE COD WAR WITH ICELAND DOMINATED THE INTERNATIONAL SCENE, BUT BY MONTH'S END THE ACTION HAD SHIFTED FROM THE NORTH SEA TO THE CONFERENCE TABLE, THOUGH SETTLEMENT SEEMED BEYOND THE HORIZON. THERE WERE NO MAJOR DEVELOPMENTS ON THE EC FRONT, AND THE GOVERNMENT HAS YET TO REACT OFFICIALLY TO THE TINDEMANS REPORT. END SUMMARY.

1. THE NEW YEAR PRODUCED COMFORTING ECONOMIC NEWS -- A DECELERATING RATE OF INFLATION WHICH IS ON TRACK TO MEET THE YEAR-END GOAL OF 10 PERCENT, GRADUALLY INCREASING INDUSTRIAL PRODUCTION AND A STEADYING POUND -- UNTIL UNEMPLOYMENT FIGURES WERE RELEASED. THEY REVEALED THAT
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CRUDE UNEMPLOYMENT REACHED 1.4 MILLION (6.1 PERCENT) IN JANUARY VERSUS 1.2 MILLION IN DECEMBER. IT WAS A NEW POSTWAR HIGH, AND TRIGGERED GROWING CONCERN AMONG THE TUC LEADERSHIP, CRIES OF OUTRAGE FROM THE PARLIAMENTARY LABOR PARTY (PLP) AND CRITICISM FROM THE CONSERVATIVES. THE GOVERNMENT BOUGHT TIME BY ACCEDING TO A COMMONS DEBATE ON THE ISSUE AND PROMISING A FURTHER LIMITED PACKAGE OF MEASURES FROM MID-FEBRUARY, WHILE FIRMLY RESISTING DE-

MANDS FOR "CONTROLLED REFLATION" AND SELECTIVE IMPORT CONTROLS. THE DEBATE OUTCOME VINDICATED THE GOVERNMENT'S ECONOMIC POLICIES AND UNDERSCORED THE CONSERVATIVE OPPOSITION'S POLITICAL DEBILITY, BUT EXACERBATED DIVISIONS WITHIN THE PLP.

2. SHIFTING AWAY FROM THE MACROECONOMIC DEMAND MANAGEMENT POLICIES PURSUED BY CONSECUTIVE BRITISH GOVERNMENTS, THE WILSON GOVERNMENT SEEMS DETERMINED TO PERSIST IN ITS INDUSTRIAL STRATEGY OF FOMENTING THE BASIC STRUCTURAL CHANGES IT CONSIDERS NEEDED TO REVERSE THE CONTINUING DECLINE OF BRITISH INDUSTRY. PROGRESS TOWARD THIS GOAL IS POSSIBLE ONLY IN THE MEDIUM TERM WITH INEVITABLE COSTS IN TERMS OF HIGHER UNEMPLOYMENT AND DECLINING LIVING STANDARDS. THESE COSTS, IN TURN, SAP THE POLITICAL RESOLVE TO CARRY OUT THE CHANGES. TRADE UNION COOPERATION WILL BE VITAL IN WORKING OUT THE NEXT PHASE OF THE INCOMES POLICY AND IN MAKING IT STICK, AS WILL PLP SUPPORT. AS UNEMPLOYMENT CONTINUES TO RUN AT HIGH LEVELS AND LIVING STANDARDS DECLINE, PRESSURES FROM BELOW ON THE TUC AND THE LABOR PARLIAMENTARIANS WILL INCREASE, LESSENING THEIR ABILITY TO SUPPORT THE GOVERNMENT'S STRATEGY. SOME TIME

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HAS BEEN BOUGHT, BUT THE UNION CONFERENCE PERIOD, WHICH BEGINS IN THE SPRING AND CULMINATES WITH THE TUC CONFERENCE IN EARLY SEPTEMBER, WILL BE CRUCIAL. AS YET IT IS TOO EARLY TO SAY WHETHER THE TUC AND PLP LEADERSHIP WILL BE ABLE TO RESIST THE ANTICIPATED PRESSURES LONG ENOUGH FOR THE GOVERNMENT'S STRATEGY TO SUCCEED.

3. DEVOLUTION HAS BECOME A POTENTIALLY CRITICAL ISSUE FOR THE GOVERNMENT. LABOR PARTY SUPPORTERS IN SCOTLAND WHO FAVOR A GREATER MEASURE OF LOCAL CONTROL, LED BY LABOR MP JIM SILLARS, FORMED A NEW SCOTTISH LABOR PARTY, INTRODUCING ANOTHER DESTABILIZING FACTOR INTO THE VOLATILE SCOTTISH POLITICAL SCENE AND THREATENING LABOR'S CONTINUED ELECTORAL DOMINATION OF THAT REGION. A FRAC-TIOUS FOUR-DAY DEBATE OF THE DEVOLUTION WHITE PAPER RE-

VEALED PRECIOUS LITTLE SUPPORT FOR THE GOVERNMENT'S PROPOSALS. THE GOVERNMENT WAS ONLY SAVED FROM SERIOUS EMBARRASSMENT BY THE CONSERVATIVE PARTY'S EQUIVOCATION AND UNCERTAINTY. FOLLOWING THE DEBATE, THE GOVERNMENT UNIT CHARGED WITH DEVELOPING DEVOLUTION POLICY AND LEGISLATION WAS SHAKEN-UP AND SENT BACK TO THE DRAWING BOARD. SHORT OF REPUDIATING ITS ELECTORAL COMMITMENT TO DEVOLUTION TO SCOTLAND AND WALES, THE GOVERNMENT HAS TWO ALTERNATIVES: TO TRY TO TIGHTEN IT OUT WITH THE ORIGINAL PROPOSALS, IN WHICH CASE FAILURE SEEMS FOREORDAINED; OR TO SEEK TO BUILD A MAJORITY BY ACCOMMODATING THE VARYING AND OFTEN CONFLICTING VIEWS EXPRESSED IN THE DEBATE. A FORMIDABLE TASK INDEED. EITHER WAY, DEVOLUTION PROMISES TO BE A FOCUS OF CONTENTION THROUGHOUT THE CURRENT PARLIAMENT, AND ONE WHICH COULD BRING DOWN THE GOVERNMENT AS WELL AS SPLIT THE UK.

4. DESPITE THEIR GENERAL PARLIAMENTARY PUSILLANIMITY,
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CONSERVATIVES COULD FIND SOME CONSOLATION IN THE REACTION TO AND MEDIA COVERAGE OF THEIR LEADER'S SPEECH ON PROPOSED DEFENSE CUTS AND THE SOVIET MENACE. IT WAS VINTAGE WINE FOR THE THIRSTING PALATES OF THE PARTY FAITHFUL, EVEN THOUGH IT IS UNLIKELY TO AFFECT THE GOVERNMENT'S PLANS TO IMPOSE FURTHER CUTS IN DEFENSE SPENDING. FOREIGN POLICY WAS ANOTHER FOCAL POINT OF TORY ATTENTION, WITH MRS. THATCHER TRAVELING TO EGYPT, SYRIA AND GERMANY IN AN EFFORT TO STRENGTHEN HER CREDENTIALS IN THIS FIELD. THE LONG-AWAITED SHAKE-UP OF THE CONSERVATIVE SHADOW CABINET WAS ANNOUNCED IN MID-JANUARY. THE NET EFFECT WAS TO STRENGTHEN THE FRONT BENCH SLIGHTLY, PARTICULARLY ON THE DEFENSE SIDE.

5. AS EXPECTED, JANUARY SAW THE GOVERNMENT CAREFULLY REJECT THE NORTHERN IRELAND CONSTITUTIONAL CONVENTION REPORT AND RECALL THE CONVENTION. PROTESTANT AND CATHOLIC POLITICAL LEADERS WERE TOLD BLUNTLY THAT FAILURE TO REACH AGREEMENT ON FUTURE GOVERNMENTAL FORMS BY THE END OF FEBRUARY WOULD MEAN CONTINUED DIRECT RULE FROM WESTMINSTER. THIS POSITION WAS COORDINATED WITH THE IRISH GOVERNMENT. WITH SECTARIAN MURDER CONTINUING AND TERRORIST BOMBING ON THE UPSWING, THERE IS LITTLE REASON TO HOPE THE TWO SIDES WILL REACH AGREEMENT.

6. THE INTERNATIONAL SCENE WAS DOMINATED BY THE COLD WAR WITH ICELAND. THE CENTER OF ACTION SHIFTED FROM CONFRONTATION IN THE NORTH SEA TO DISCUSSIONS OVER THE LONDON CONFERENCE TABLE FOLLOWING NATO SECRETARY GENERAL LUNS' VISIT TO REYKHAVIK. ICELANDIC PREMIER HALLGRIMSSON SPENT

FOUR DAYS IN LONDON BEFORE RETURNING TO ICELAND WITH A PROPOSED SETTLEMENT FORMULA FOR INTER-PARTY CONSIDERATION. IN THE INTERIM, THE BRITISH WITHDREW THE ROYAL NAVY, BUT ASKED THEIR FISHING FLEET TO REMAIN ON STATION AND PROMISED COMPENSATION FOR ANY LOSSES SUFFERED. ICELAND'S RESPONSE TO THE BRITISH PROPOSAL IS EXPECTED MOMENTARILY. THE UK'S RELATIONS WITH THE EC SEEMED TO IMPROVE, AND WHITEHALL'S DESIRE TO BE BETTER, IF STILL NOT "GOOD," EUROPEANS WAS PERCEPTIBLE. THUS FAR REACTIONS TO THE TINDEMANS' PROPOSALS ON EUROPEAN UNION HAVE BEEN CAUTIOUS AND UNENTHUSIASTIC. THOUGH THE GOVERNMENT HAS

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YET TO MAKE AN OFFICIAL STATEMENT.

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Message Attributes

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